

yltrans

AR08

***annual
report
1977***

transair



Board of Directors and Senior Management

DIRECTORS

P. A. ALLEN

President
Little Long Lac Gold Mines Ltd., Toronto, Ontario

A. F. CAMPNEY

Partner
Campney and Murphy, Vancouver, B.C.

R. T. EYTON*

President and Chief Executive Officer
Pacific Western Airlines Ltd., Calgary, Alberta

S. KANEE*

Chairman of the Board
Soo Line Mills (1969) Ltd., Winnipeg, Manitoba

A. V. MAURO, Q.C.

Executive Vice President
The Investors Group, Winnipeg, Manitoba

R. R. McDANIEL*

President
McDaniel Consultants (1965) Ltd., Calgary, Alberta

A. H. MITCHELL

President
Mitchell and Associates Ltd., Edmonton, Alberta

* Member of Executive Committee

OFFICERS

S. KANEE

Chairman of the Board

R. R. McDANIEL

Vice-Chairman of the Board

H. D. COPE

President and Chief Executive Officer

K. P. SUTHERLAND

Executive Vice President

A. B. CRAIG

Vice President, Flight Operations

D. J. HICKS

Vice President, Engineering and Maintenance

F. C. McKAY

Corporate Secretary

E. J. RANSON

Vice President, Sales and Services

E. J. VALKA

Comptroller



Head Office:

Winnipeg International Airport
Winnipeg, Manitoba
R3J 0H7
Telephone (204) 632-2811

Shares Listed: Toronto Stock Exchange, Winnipeg Stock Exchange

Auditors: Deloitte, Haskins & Sells, Winnipeg, Manitoba

Registrar and Transfer Agent:

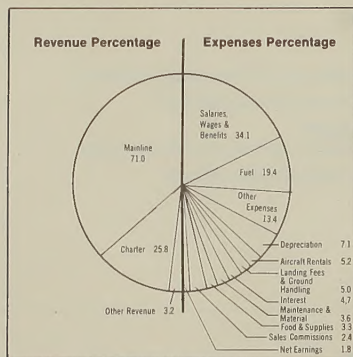
The Royal Trust Company, Winnipeg, Manitoba, and Toronto, Ontario

Bankers: Toronto-Dominion Bank, Winnipeg, Manitoba

1977 in Brief

(in thousands of dollars)

Financial	1977	1976
Operating revenues	\$40,939	\$40,011
Operating expense	35,285	36,495
Operating income	2,749	167
Net Income (Loss)	<u>741</u>	<u>(3,698)</u>
Funds provided from operations	3,563	(12)
Earnings (Loss) per common share	<u>.24</u>	<u>(1.20)</u>
Operations		
Passengers carried	521,000	455,000
Revenue passenger miles	343,125,000	404,092,000
Load factor %	52.0	51.2



Report to the Shareholders

Enclosed please find the consolidated financial statements for the year ended December 31, 1977.

FOURTH QUARTER RESULTS

The fourth quarter results were severely impacted by the economic situation in Northern Manitoba and adverse weather conditions prevailing in all operating regions simultaneously. The result was decreased passenger traffic and revenues.

Gross revenue in the final quarter totalled \$8,636,000 as compared to \$9,462,000 in 1976, a decrease of \$826,000 or 9.1%.

Operating expenses decreased by \$364,000 from \$9,523,000 in 1976 to \$9,159,000 in the final quarter of 1977. The operating loss for the fourth quarter of 1977 was \$523,000 as compared to a loss of \$931,000 in 1976.

The above comparisons reflect the grounding of the Boeing 707 aircraft in 1976 which negatively affected the 1976 operating costs and margin by an estimated \$400,000.

The soft economic condition in Manitoba is of serious concern. Passenger loads are static or declining on our Manitoba route sectors and activity in our helicopter division has seriously declined.

We are.....reviewing our operations on a continuing basis,
adjusting schedules and staffing where possible,
reviewing our marketing strategy to determine better revenue possibilities.

THE YEAR IN REVIEW

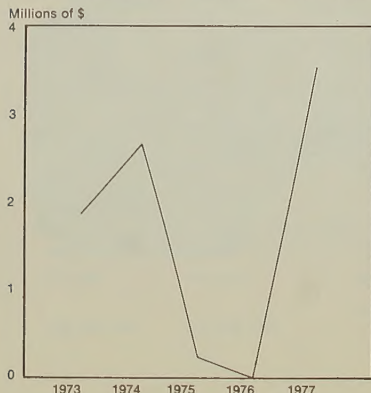
Your company commenced 1977 operations under most trying circumstances — deteriorating margins, escalating costs, a large cash flow deficiency and a negative working capital position. In late 1976 we embarked upon a number of actions in an endeavour to improve the viability of your company. Some of the action taken has been painful, especially with regard to the human element affected. Overall, however, we are pleased that the financial results you are about to review indicate positive results and their consequent effect on operations. In most aspects the Company's operations have been substantially improved.

- operating margins have improved
- equipment utilization has reached all time highs
- employee productivity is up by approximately 10%
- a positive contribution to working capital has been made

The problem of uncontrollable cost escalations, such as fuel, materials, outside services, labour agreements and the government's user pay policy, still have to be dealt with. To obviate some of the effect of these cost increases we filed and received approval for a fare increase, effective March 1, 1978.

On April 7, 1978, we received the decision of the Canadian Transport Commission relative to the acquisition of an interest in Transair by Pacific Western Airlines Ltd. (see Note 5 to the financial statements). As part of the agreement relating to the acquisition, Transair filed applications with the Regulatory Authorities to add the Prairie points of Regina, Saskatoon, Edmonton and Calgary to our route system. We also asked to suspend scheduled service east of Winnipeg. The Commission approved

FUNDS GENERATED FROM OPERATIONS



the acquisition of an interest in Transair by Pacific Western and approved the licencing of the Prairie points mentioned above on Transair's existing Manitoba licences. As at the time of this report, no decision has been received on the application to suspend our Eastern scheduled service.

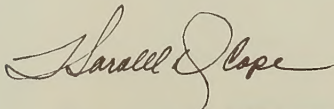
Pacific Western employs 2,426 people and operates a fleet of 22 aircraft made up as follows:

- 13 Boeing 737s
- 2 Boeing 707s
- 1 Boeing 727
- 3 Lockheed Hercules freighters
- 3 Convair 640s

The combined route structures of Transair Limited and Pacific Western Airlines will give the companies a solid economic base and enhance the stability of both organizations and enable them to meet the challenge of the future.

In closing, a special word of thanks to all employees for their support and determination to prove your Company's viability.

— April 10, 1978.



H. D. COPE, President





transair Limited

Consolidated Statement of Income

For the Year Ended December 31, 1977

(With 1976 Figures for Comparison. In Thousands of Dollars)

	1977	1976
OPERATING REVENUE		
Scheduled Services	\$29,066	\$25,078
Helicopter and Avionics	2,384	1,873
Charter	8,161	10,930
Other	1,328	2,130
Total Operating Revenue	<u>40,939</u>	<u>40,011</u>
OPERATING EXPENSES		
Flying Operations	14,857	15,811
Maintenance	4,620	5,474
Customer Service	9,742	9,233
Marketing	1,980	1,812
General and Administrative	2,361	2,825
Helicopter and Avionics	1,725	1,340
Total Operating Expenses	<u>35,285</u>	<u>36,495</u>
Depreciation and Amortization	<u>2,905</u>	<u>3,349</u>
	<u>38,190</u>	<u>39,844</u>
OPERATING INCOME	<u>2,749</u>	<u>167</u>
Interest (Note 6)	<u>1,879</u>	<u>2,380</u>
INCOME (LOSS) BEFORE THE FOLLOWING ITEMS	<u>870</u>	<u>(2,213)</u>
Provision for loss in non-consolidated subsidiary (Note 9)	—	(1,248)
Pre-operating costs written off	—	(1,061)
Foreign exchange loss (Note 2)	(264)	(185)
Gain (Loss) on disposal of property and equipment	20	(132)
Non-recurring expenses	—	(390)
Income tax expense (Note 7)	(430)	229
INCOME (LOSS) BEFORE EXTRAORDINARY ITEMS	<u>196</u>	<u>(5,000)</u>
EXTRAORDINARY ITEMS:		
Gain from sale of other assets	—	1,302
Reduction of income tax expense (Note 7)	545	—
NET INCOME (LOSS) FOR THE YEAR	<u>\$ 741</u>	<u>\$ (3,698)</u>
Earnings (Loss) per common share — before extraordinary items	<u>.06</u>	<u>(1.62)</u>
Earnings (Loss) per common share — after extraordinary items	<u>.24</u>	<u>(1.20)</u>

The accompanying notes are an integral part of the financial statements.

TRANSAIR LTD - 1ST QTR LOSS \$359,000 VS
 \$149,000. EXCLUDED ARE LOSSES ON DISPOSAL OF
 PROPERTY AND EQUIPMENT OF \$19,000 VS \$7,000
 AND EXCHANGE LOSSES OF \$48,000 VS \$11,600
 MAKING FINAL NET LOSS \$426,000 VS \$467,000
 LOSS. REVENUE \$10.5 MILLION VS \$9.7 MILLION.
 11-19 AM EDT MAY 18-78 9690,000
 -0-

transair Limited

Consolidated Statement of Deficit

For the Year Ended December 31, 1977

(With 1976 Figures for Comparison. In Thousands of Dollars)

DEFICIT AT BEGINNING OF THE YEAR

As previously reported	\$ (4,528)	\$ (669)
Adjustment for change in method of accounting for foreign exchange (Note 2)	304	56
Adjustment of provision for loss in non-consolidated subsidiary (Note 9)	(101)	—
As restated	(4,325)	(613)

NET INCOME (LOSS) FOR THE YEAR 741 (3,698)

DIVIDENDS PAID ON PREFERENCE SHARES (14) (14)

DEFICIT AT END OF THE YEAR \$ (3,598) \$ (4,325)

The accompanying notes are an integral part of the financial statements.

Consolidated Statement of Changes in Financial Position

For the Year Ended December 31, 1977

(With 1976 Figures for Comparison. In Thousands of Dollars)

WORKING CAPITAL PROVIDED:

From operations excluding charges not affecting working capital	\$ 3,563	\$ —
Extraordinary gain on sale of assets — net of non-current portion	—	496
Reduction in mortgage and agreements receivable	235	195
Sale of equipment	54	7,308
Long-term financing	3,484	—
Total	<u>7,336</u>	<u>7,999</u>

WORKING CAPITAL APPLIED:

To operations excluding charges not affecting working capital	—	12
Capital expenditures	2,325	2,289
Repayment of long-term debt	2,609	7,661
Advances to non-consolidated subsidiary	—	263
Development and fleet pre-operating costs	—	64
Deferred lease payments	54	54
Dividends on preference shares	14	14
Total	<u>5,002</u>	<u>10,357</u>

INCREASE (DECREASE) IN WORKING CAPITAL 2,334 (2,358)

WORKING CAPITAL DEFICIENCY AT BEGINNING OF THE YEAR (11,285) (8,927)

WORKING CAPITAL DEFICIENCY AT END OF THE YEAR \$ (8,951) \$ (11,285)

The accompanying notes are an integral part of the financial statements.



transair Limited

Consolidated Balance Sheet

AS AT DECEMBER 31, 1977

(With 1976 Figures for Comparison. In Thousands of Dollars)

ASSETS

CURRENT ASSETS:

	1977	1976
Cash	\$ 65	\$ 53
Accounts receivable — trade	3,415	3,854
— sale of aircraft	—	7,700
Inventories of parts, supplies, gasoline and oil — at cost	1,393	2,101
Mortgage and agreements receivable due within one year	219	801
Prepaid expenses	164	241
Total current assets	<u>5,256</u>	<u>14,750</u>

MORTGAGE AND AGREEMENTS RECEIVABLE,

less amounts due within one year	1,043	1,252
--	-------	-------

PROPERTY AND EQUIPMENT — at cost

Aircraft and flight equipment	25,815	24,932
Land, buildings, and ground equipment	3,483	3,524
	29,298	28,456
Less accumulated depreciation	7,941	6,615
Net property & equipment	<u>21,357</u>	<u>21,841</u>

DEVELOPMENTAL AND FLEET PRE-OPERATING COSTS	548	757
---	-----	-----

DEFERRED LEASE PAYMENTS	948	893
-------------------------------	-----	-----

TOTAL	<u>\$29,152</u>	<u>\$39,493</u>
-------------	-----------------	-----------------

The accompanying notes are an integral part of the financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	1977	1976
CURRENT LIABILITIES:		
Bank indebtedness (Note 4)	\$ 3,906	\$ 5,834
Accounts payable and accrued charges	6,321	10,841
Unearned revenue	1,298	914
Long-term debt due within one year	<u>2,682</u>	<u>8,446</u>
Total current liabilities	<u>14,207</u>	<u>26,035</u>
 BANK LOAN (Note 5)	 <u>2,000</u>	 <u>—</u>
 LONG-TERM DEBT, less amounts due within one year (Notes 2 & 6)	 <u>9,868</u>	 <u>10,993</u>
 DEFERRED INCOME TAXES (Note 7)	 <u>206</u>	 <u>321</u>
 SHAREHOLDERS' EQUITY (Notes 1a & 8)		
Capital Stock:		
Preference Shares	200	200
Common Stock	<u>6,269</u>	<u>6,269</u>
	6,469	6,469
Deficit	<u>(3,598)</u>	<u>(4,325)</u>
Net Shareholders' equity	<u>2,871</u>	<u>2,144</u>
 TOTAL	 <u>\$29,152</u>	 <u>\$39,493</u>

Approved by the Board:

S. KANEE, Director

R. McDANIEL, Director

The accompanying notes are an integral part of the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of accounting policies of Transair Limited and subsidiaries is presented to highlight those policies which are significant to the companies' operations and to facilitate the evaluation of the financial statements contained in this report.

(a) Principles of Consolidation

The consolidated financial statements include the accounts of the company and wholly-owned subsidiaries Midwest Airlines Ltd., Arctic Wings Limited and Aircraft Services (Western) Limited. The latter two are inactive. The acquisition of Midwest Airlines Ltd. has been treated for accounting purposes on a "pooling of interests" basis, and the issue of 739,000 common shares with an assigned value of \$3,695,000 for the acquisition resulted in the company's consolidated capital stock account being increased by \$13,000, equivalent to the paid-in capital of the subsidiary, and retained earnings being increased by \$2,058,964, equivalent to the retained earnings of the subsidiary on May 2, 1969.

(b) Depreciation and Amortization

Depreciation of aircraft and flight equipment is provided on a straight-line basis at rates which are sufficient to reduce their book value to estimated residual values at the expiration of their estimated useful lives. The cost of airframe and engine overhauls is capitalized and amortized on the basis of hours flown.

When new aircraft are acquired the estimated value of available flying hours of engines is segregated and amortized on the basis of hours flown to the date of the first overhaul.

(c) Developmental and Fleet Pre-Operating Costs

Costs related to new aircraft prior to going into revenue service and pre-operating costs of new routes and services are deferred and amortized to earnings on a straight-line basis over eight years.

(d) Leases

With respect to the leases for two Boeing 737 aircraft (see also Note 3) the company follows the

policy of charging to expense the average of payments throughout the term of each lease (in aggregate \$1,806,000 per annum). Payments made in excess of the amounts charged to expense are shown on the Balance Sheet as deferred lease payments. This account will be reduced by charges to operations in the latter years of the leases when payments will be lower than the average annual rate.

(e) Conversion of Foreign Currencies

Current assets and current liabilities in foreign currencies have been converted into Canadian dollar equivalents at the current rate of exchange prevailing at the balance sheet date. Long-term debt payable in foreign currencies is carried at rates prevailing at dates of issue. (see also Note 2).

2. CHANGE IN ACCOUNTING POLICY

During the year the company changed the method of accounting for foreign exchange on long-term debt. Long-term debt payable in foreign currency is now stated at the exchange rate prevailing at the date the debt was incurred. Previously these liabilities were recorded at the rate of exchange in effect at the balance sheet date.

This change has been applied retroactively and has resulted in a reduction of the deficit at January 1, 1976 of \$56,000 and of the foreign exchange loss for 1976 of \$248,000. The effect of the change on 1977 accounts has been to reduce the foreign exchange loss by \$603,000 and to reduce the carrying value of long-term debt payable in foreign currency at December 31, 1977 by \$965,000.

3. LEASES

The company has two Boeing 737 aircraft on net leases through November 1981. In the last year of the leases, the company has the option to purchase the aircraft for \$585,000 each, including spare engines and certain parts. Annual lease payments total \$1,860,000 for 1978 and 1979, \$1,337,500 for 1980 and \$1,050,000 for 1981.

4. BANK INDEBTEDNESS

Bank indebtedness is secured by assignments of book debts and demand debentures issued by the company and its wholly-owned subsidiary, Midwest Airlines Ltd. The debentures are secured by a fixed and specific mortgage on certain assets and a floating charge on all of the companies' unencumbered assets and undertakings. The debentures also carry further provisions that there be no redemption of paid-up capital on any shares and no payment of dividends on common shares of the companies without prior consent of the bank.

5. BANK LOAN

A Sale Agreement between Pacific Western Airlines Ltd. and shareholders of the Company, who in the aggregate hold or control in excess of 70% of the outstanding shares of the Company, has been entered into for the sale of those shares to Pacific Western Airlines Ltd. at a price of \$1.75 per share. The sale is conditional upon the approval of the applicable regulatory authorities.

As a condition of the sale agreement, Pacific Western Airlines Ltd. undertook to make an additional line of credit of up to \$3,000,000 available to the Company for operating capital. A line of credit for this amount has been arranged with the Company's bank against which \$2,000,000 has been borrowed and \$1,000,000 remains to be drawn. The advances are secured by demand debentures previously issued (see also Note 4) and the guarantee of Pacific Western Airlines Ltd.

The Company has agreed with Pacific Western Airlines Ltd. that, in the event the Agreement is not approved by regulatory authorities, the Company is to repay the funds made available, in five equal annual installments at an interest rate equal to the Company's current bank rate, and as security for the repayment of funds made available the Company will give Pacific Western Airlines Ltd., subject to the bank's prior claim and to the extent the Company is able to do so, a debenture by way of a fixed and floating charge on the Company's equity in its assets and undertakings.

6. LONG-TERM DEBT

	Due within one year	Non-current
6½% note payable in United States currency secured by two YS-11A aircraft, parts, and equipment, repayable monthly to December, 1979 (terms extended in 1977)	\$ 583,000	\$ 609,000
Floating rate (N.Y. prime plus 2%; effective rate of 9¼% at December 31, 1977) notes payable in United States currency secured by two F-28 aircraft, repayable quarterly to April, 1985	692,000	3,995,000
6% term loan payable in United States currency to Export-Import Bank of United States by semi-annual instalments December, 1980 to June, 1985. Guaranteed by a commercial bank	—	2,993,000
Floating rate (London Inter-Bank Offering Rate plus 1½%; effective rate of 10 9/16% at December 31, 1977) bank term loan payable in United States currency by semi-annual instalments to June, 1980 secured by a B-737 aircraft	665,000	898,000
Floating rate (prime plus 2%; effective rate of 10¼% at December 31, 1977) note payable in Canadian currency secured by assignment of a mortgage receivable on the sale of a HS748 aircraft, repayable monthly to August 1979	209,000	174,000
Interest free mortgage in Canadian currency repayable in annual instalments to 1981	40,000	120,000
6% notes payable in United States currency secured by one Bell 204 and two Bell 206B helicopters repayable monthly to March, 1981	157,000	289,000
Floating rate (prime plus 1½%; effective rate of 9¼% at December 31, 1977) bank term loan payable in Canadian currency secured by assignment of an agreement receivable, repayable in annual instalments to 1980	300,000	600,000
Floating rate (prime plus 2%; effective rate of 10¼% at December 31, 1977) bank term loan payable in Canadian currency secured by assignment of an agreement receivable, repayable monthly to March, 1983	36,000	190,000
Total	<u>\$2,682,000</u>	<u>\$9,868,000</u>

Maturity of long-term debt for the next five years is as follows:

1978	\$2,682,000
1979	2,514,000
1980	2,010,000
1981	1,315,000
1982	1,249,000

Interest on long-term debt for the year ended December 31, 1977 amounted to \$1,046,000 (\$2,019,000 in 1976).

7. DEFERRED INCOME TAXES

The companies follow the tax-allocation basis of accounting for income taxes whereby provisions are charged against income for deferred income taxes arising from the timing differences created by taxation treatment of certain items such as overhaul charges and capital cost allowances. Benefits which have arisen from the application of prior years' losses and which have not previously been reflected in the accounts are shown in the Statement of Income as an extraordinary item. (1977 — \$545,000).

Transair Limited has accumulated tax losses carried forward totalling \$590,000 which may be applied to reduce future taxable incomes before the end of 1981. In addition, the excess of the undepreciated capital cost for tax purposes of property and equipment over the book value of the assets, net of other timing differences, amounted to \$4,979,000 at December 31, 1977. Deferred income taxes have not been recorded in respect of these items.

8. CAPITAL STOCK

Preference Shares

Authorized capital consists of 20,000 shares of a par value of \$10.00 each, redeemable at \$13.50 per share (including postponed dividends of \$3.00 per share as at May 15, 1963) and entitled to a cumulative dividend of 70 cents per share per annum after that date.

The 20,000 preference shares are all issued and fully paid.

All dividends since May 15, 1963 have been paid.

Common Shares

Authorized capital consists of 5,000,000 shares of no par value. 3,080,811 common shares are issued and fully paid (unchanged from 1976).

As at December 31, 1977 5,500 common shares were set aside for option at a price of \$2.30 per share expiring in 1978. Included are options for 2,000 shares to officers of the company, none of whom are directors.

9. RESTATEMENT OF 1976 ACCOUNTS

The cost of liquidating the company's investment in Filmont Tours International Limited (formerly a non-consolidated subsidiary) exceeded the provision for such loss recorded in the accounts at December 31, 1976 by \$101,000. This amount has been treated as a prior period adjustment by restating the 1976 provision for loss and deficit.

Certain other 1976 comparative figures have been reclassified to conform with the basis of presentation of the 1977 accounts.

10. UNFUNDED PENSION LIABILITY

At December 31, 1977, the unfunded liability for past service pension benefits amounted to \$382,000. This liability is being amortized by payments of \$37,000 per year, including interest, for fifteen years.

11. ANTI-INFLATION REGULATIONS

The company and its subsidiaries are subject to restrictions on prices, profits, dividends and compensation under the Anti-Inflation Act. The Company believes that it has complied with all requirements of existing legislation.

12. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Expenses include remuneration of \$207,000 paid to six officers, none of whom are directors. Fees of \$19,000 were paid to seven directors.

Auditors Report:

To the Shareholders of Transair Limited:

We have examined the consolidated balance sheet of Transair Limited as at December 31, 1977 and the consolidated statements of income, deficit, and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

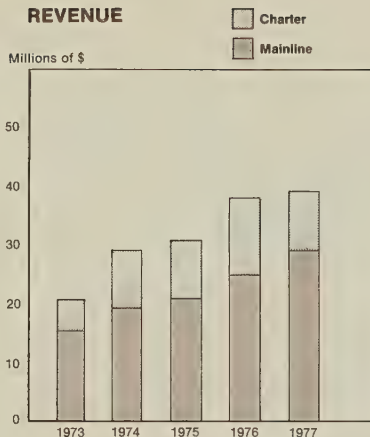
During the year the Company has changed the method of accounting for foreign exchange on long-term debt as more fully described in Note 2 to the financial statements. This change has been applied retroactively and has reduced the foreign exchange loss by \$603,000 in 1977 and \$248,000 in 1976 and has reduced the carrying value of long term debt payable in foreign currency at December 31, 1977 by \$965,000.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in the method of accounting for foreign exchange on long-term debt referred to in Note 2 to the financial statements, on a basis consistent with that of the preceding year.

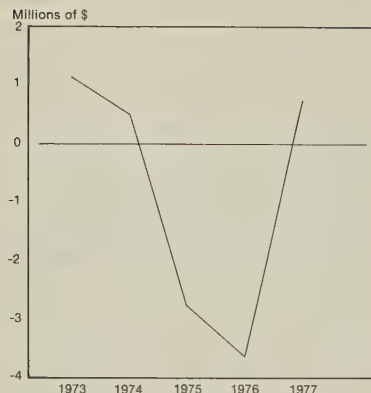
DELOITTE, HASKINS & SELLS
Chartered Accountants

Winnipeg, Manitoba
March 8, 1978

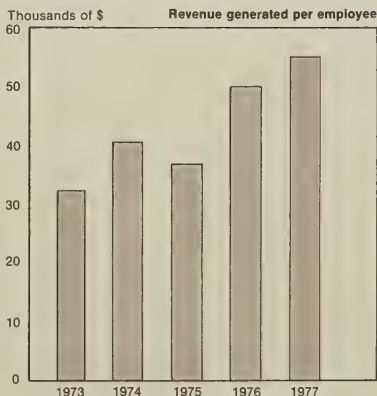
REVENUE



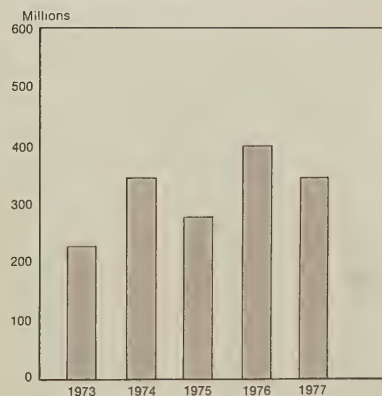
NET INCOME OR LOSS



PRODUCTIVITY



REVENUE PASSENGER MILES



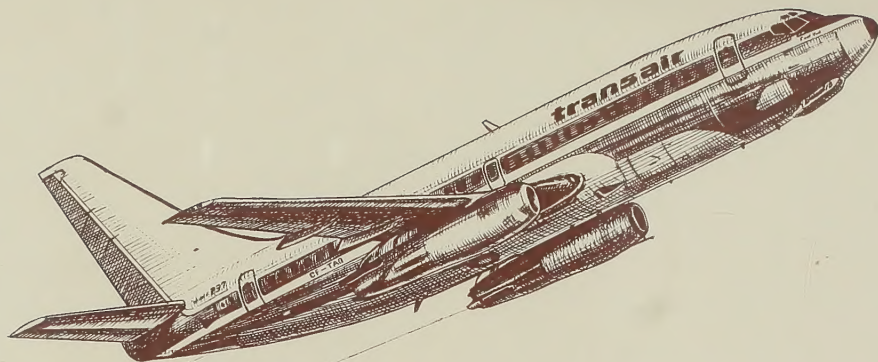


Ten
Years
With
Transair

	1977	1976	1975	1974	1973	1972	1971	1970	1969	1968
Scheduled Revenue (\$000)	29,066	25,078	20,947	19,735	15,800	12,828	12,530	10,113	6,835	4,206
Contract and Charter Revenue (\$000)	10,545	12,803	9,480	9,981	5,617	4,008	3,379	3,692	4,087	1,899
Other Revenue (\$000)	1,328	2,130	1,100	760	663	613	434	219	107	258
Total Revenue (\$000)	40,939	40,011	31,527	30,476	22,080	17,449	16,343	14,024	11,029	6,363
Income (Loss) before Income Tax and Extraordinary Items Amount (\$000)	626	(5,229)	(3,088)	679	700	810	411	(106)	(1,412)	(762)
Percent of Total Revenue	1.5	(13.1)	(9.7)	2.2	3.1	4.6	2.5	(.8)	(12.8)	(12.0)
Net Income (Loss) Amount (\$000)	741	(3,698)	(2,722)	492	1,107	1,011	505	(39)	(2,059)	(872)
Percent of Total Revenue	1.8	(9.2)	(8.6)	1.6	5.0	5.8	3.1	(.3)	(18.7)	(13.7)
Percent of Common Shareholders Equity	27.7	(190.2)	(48.6)	5.9	14.1	14.9	8.8	(1.4)	(80.8)	(80.0)
Funds Provided from Operations (\$000)	3,563	(12)	274	2,688	1,850	2,299	1,667	1,535	444	197
Retained Earnings (Deficit) (\$000)	(3,598)	(4,325)	(669)	2,067	1,589	496	(501)	(978)	(939)	77
Common Shareholders Equity (\$000)	2,671	1,944	5,600	8,336	7,858	6,765	5,768	2,723	2,547	1,090
Common Shares Outstanding End of Year (000)	3,081	3,081	3,081	3,081	3,081	3,081	3,081	2,054	2,011	781
Earnings (Loss) Per Common Share (c)	24.1	(120.0)	(88.8)	15.5	35.4	32.8	19.7	(1.9)	(102.4)	(111.7)
Book Value per Share (\$)	.87	.63	1.82	2.71	2.55	2.20	1.87	1.33	1.27	1.40
Gross Additions to Fixed Assets (\$000)	2,325	2,289	4,438	23,260	1,588	1,754	575	5,172	3,870	571
Net Book Value of Fixed Assets (\$000)	21,357	21,841	29,867	28,197	8,830	11,663	13,328	14,350	11,028	9,649
Long-Term Debt Outstanding—Current and Non-Current (\$000)	12,550	19,439	21,891	20,654	4,542	5,588	6,912	8,514	6,559	4,681
Working Capital (Deficiency) (\$000)	(8,951)	(11,285)	(8,927)	(4,031)	53	(1,441)	(1,704)	(4,040)	(1,811)	(750)
Passengers Carried (000)	521	455	409	484	405	328	337	301	206	134
Revenue Passenger Miles (000)	343,125	404,092	276,398	342,607	225,130	159,004	145,042	125,809	78,118	40,834
Passenger Load Factor %	56.9	52.3	47.6	52.4	54.0	49.5	47.4	45.0	48.7	46.9
Total Load Factor %	52.0	51.2	46.2	51.6	51.1	38.5	37.7	40.9	43.8	46.0
Average Number of Employees	740	805	855	700	690	514	485	504	468	390

NOTE: The results of Midwest Airlines Ltd. are included effective May 2, 1969.







INTERIM REPORT

For the Six Months Ended June 30, 1977

TO THE SHAREHOLDERS OF TRANSAIR LIMITED:

Enclosed are comparative financial statements for the six months ended June 30, 1977.

These financial statements reflect steps taken by management to streamline your Company's operations and fulfill its primary role as a regional air carrier.

Total revenues increased by \$721,000 or 3.6% over the same period in 1976. Revenue losses from our decision to dispose of our B707 charter aircraft, and the shutdown of our heavy maintenance division in late 1976, have been more than compensated for by scheduled revenues, which have increased \$3,672,000 or 33.6% over 1976 revenues.

Operating and administration expenses have remained under constant review and control and as a percentage of revenue are 87.9% in 1977 versus 91.7% in 1976. Depreciation, amortization and interest show proportionate decreases in 1977 as a result of the B707 disposal and heavy maintenance shutdown; as a result, total operating expenses as a percentage of revenue are 98.6% in 1977 as compared to 106.0% in 1976. The result has been an operating profit of \$297,000 in 1977 compared to a loss of \$1,199,000 in 1976. Net income for the period after other items is \$105,000 as compared to a loss of \$1,730,000 in 1976.

While the funds provided by positive net income and advances from Pacific Western Airlines resulted in an improved working capital position for the period, a sizeable deficiency in working capital still exists. Other courses of action are being explored to improve the Company's financial position.

A subsequent event must be commented upon, namely, the withdrawal of services by the Air Traffic Controllers for a three-day period in August, 1977. This type of unforeseen event adversely affects the profitability of not only your Company, but other airlines, the support industries and causes inconvenience and dismay to our customers, the travelling public. Such withdrawals of essential services should not be permitted to become an annual disaster to the air transportation industry. It is our hope, that in addition to the recent action taken by the Government to restore these essential services, a mutually acceptable plan or method can be found, which in the future will eliminate the detrimental impact of such withdrawals of services.

transair Limited

And Wholly-Owned Subsidiary Companies

Interim Report for the Six Months Ended June 30, 1977 with Comparative Figures for 1976
(Unaudited) (In Thousands of Dollars)

CONSOLIDATED STATEMENT OF INCOME

	1977	1976
Revenue	\$20,764	\$20,043
Expenses		
General Operating and Administration Expenses	18,250	18,370
Depreciation and Amortization	1,409	1,670
Interest	808	1,202
	<u>20,467</u>	<u>21,242</u>
OPERATING PROFIT (LOSS) before the following items	297	(1,199)
Gain (loss) on disposal of property and equipment	16	(9)
Foreign Exchange (loss) gain	(201)	125
Income Tax Expense	(7)	—
Provision for loss on advances to non-consolidated subsidiary	—	(647)
NET INCOME (LOSS) FOR THE PERIOD	<u>\$ 105</u>	<u>\$ (1,730)</u>
INCOME (LOSS) per common share		
Basic	3.2¢	(56.4¢)
Diluted	Anti-Dilutive	

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

	1977	1976
Funds Provided:		
Net Income, excluding charges not affecting Working Capital	\$1,631	\$ 503
Reduction of Mortgage Receivable	108	96
Sale of Property and Equipment	60	—
Developmental and Fleet Pre-Operating Costs	106	—
Long Term Debt Financing	569	—
Advance from Associated Company — Net of Current Portion	1,480	—
Total Funds Provided	<u>3,954</u>	<u>599</u>
Funds Applied:		
Reclassification of certain inventories to Fixed Assets	342	—
Advances to non-consolidated Subsidiary	35	153
Capital Expenditures	1,357	1,094
Repayment of Long Term Debt	1,239	1,020
Deferred Lease Payments	27	27
Developmental and Fleet Pre-Operating Costs	—	126
Dividends on Preference Shares	7	7
Total Funds Applied	<u>3,007</u>	<u>2,427</u>
Increase (Decrease) in Working Capital	947	(1,828)
Working Capital Deficiency at Beginning of Period	(11,145)	(8,927)
Working Capital Deficiency at End of Period	<u>\$(10,198)</u>	<u>\$(10,755)</u>

The trend established and reported on in the first quarter release to the shareholders has continued. As a result of constant operational review and the year we saw developing, we are confident, that barring other events beyond management's control, 1977 will evidence a turnaround in your Company's operations.

The air transportation system in Canada is in a period of retrenchment and rationalization. Your management feels to a large extent we have accomplished the former and looks forward with optimism to our part in the latter.

Harold D. Cope

August 17, 1977

Harold D. Cope, President
and Chief Executive Officer

105
467
5728
20,764
9,1690
11,074
730
86
1644
20043
19562
9681